

Decatur County Hospital
Leon, Iowa

Financial Statements
June 30, 2010 and 2009

Together with Independent Auditor's Report

Decatur County Hospital

Table of Contents

	<u>Page</u>
Officials - June 30, 2010.....	1
Independent Auditor's Report.....	2
Management's Discussion and Analysis	3 – 8
Basic Financial Statements:	
Balance Sheets	
June 30, 2010 and 2009	9
Statements of Revenue, Expenses and Changes in Net Assets	
For the Years Ended June 30, 2010 and 2009	10
Statements of Cash Flows	
For the Years Ended June 30, 2010 and 2009	11 – 12
Notes to Financial Statements	
June 30, 2010 and 2009	13 – 23
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenue, Expenses and	
Changes in Net Assets – Budget and Actual (Cash Basis)	24
Other Supplementary Information:	
Exhibit 1 - Patient Service Revenue	
For the Years Ended June 30, 2010 and 2009	25
Exhibit 2 - Other Operating Revenue	
For the Years Ended June 30, 2010 and 2009	26
Exhibit 3 - Departmental Expenses	
For the Years Ended June 30, 2010 and 2009	27
Exhibit 4 - Patient Receivables and Allowance for Doubtful Accounts	
For the Years Ended June 30, 2010 and 2009	28
Exhibit 5 - Inventories / Prepaid Expenses	
For the Years Ended June 30, 2010 and 2009	29
Exhibit 6 - Financial Statistical Highlights	
For the Years Ended June 30, 2010 and 2009	30
Independent Auditor's Report on Internal Control Over Financial Reporting and on	
Compliance and Other Matters Based on an Audit of Financial Statements	
Performed in Accordance with Government Auditing Standards.....	31 – 32
Schedule of Findings and Questioned Costs	33 – 35
Summary Schedule of Prior Year Audit Findings	36
Audit Staff	37

Decatur County Hospital

Officials June 30, 2010

Board of Trustees	Title	Term Expires
Guy Clark	President	December 2010
Gwen Simpson	Treasurer	December 2012
Heidi Bell	Secretary	December 2014
Linda Chastain	Trustee	December 2010
Leon Kessel	Trustee	December 2010
Delbert Lee	Trustee	December 2012

Hospital Officials	Title	Term Expires
Lynn Milnes	Administrator	Indefinite
Tara Spidle	Controller	Indefinite

Independent Auditor's Report

To the Board of Trustees of
Decatur County Hospital
Leon, Iowa:

We have audited the accompanying basic financial statements of Decatur County Hospital (Hospital) as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Hospital as of June 30, 2010 and 2009, and the results of its operations, changes in fund balances and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2010 on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and Budgetary Comparison Information on pages 3 through 8 and page 24 are not required parts of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The other supplementary information, included in Exhibits 1 through 6, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Seim Johnson Sestak & Quist LLP

Omaha, Nebraska,
November 19, 2010.

Decatur County Hospital

Management's Discussion and Analysis June 30, 2010 and 2009

Introduction

This management's discussion and analysis of the financial performance of Decatur County Hospital (the "Hospital") provides an overview of the Hospital's financial activities for the years ended June 30, 2010 and 2009. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash, cash equivalents and short-term investments increased between 2010 and 2009 by \$3,422 or .1% and increased between 2009 and 2008 by \$88,529 or 4%.
- The Hospital's net assets increased \$799,213 or 11% in 2010 and increased \$735,484 or 11% in 2009.
- The Hospital reported an operating loss in 2010 of \$35,482 and operating income in 2009 of \$30,688. The operating loss in 2010 was a decrease of \$66,170 from the operating income reported in 2009 and the operating income in 2009 increased by \$166,542 from the operating loss reported in 2008.
- Net nonoperating revenues increased by \$28,029 or 4% in 2010 compared to 2009 and decreased by \$54,956 or 7% in 2009 compared to 2008.

Required Financial Statements

- The basic financial statements of Decatur County Hospital report information about DCH using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long term financial information about its activities.
- The Balance Sheets include all of DCH's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations of DCH creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of DCH, and assessing the liquidity and the financial flexibility of DCH.
- All of the current year's revenues and expenses are accounted for in the Statements of Revenue Expenses, and Changes in Net Assets. This statement measures improvements in DCH' operations over the past 2 years and can be used to determine whether DCH has been able to recover all of its costs through its patient service revenue and other revenue sources.
- The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about DCH's cash from operations, investing, and financing activities, and to provide answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

Decatur County Hospital

Management's Discussion and Analysis June 30, 2010 and 2009

Financial Analysis of Decatur County Hospital

The Balance Sheets and the Statements of Revenue, Expenses, and Changes in Net Assets report information about DCH's activities. These two statements report the net assets of DCH and changes in them. Increases or decreases in DCH's net assets are one indicator of whether its financial health is improving or deteriorating. However, other non-financial factors such as changes in the healthcare industry, changes in Medicare and Medicaid regulations, and changes in commercial insurance contracting should also be considered.

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheet. The Hospital's net assets increased by \$799,213 or 11%, in 2010 over 2009 net assets as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2010 Change</u>
Assets:				
Current assets	\$ 5,259,501	4,482,831	4,381,576	17.3%
Assets limited as to use or restricted	1,828,149	1,786,178	1,715,781	2.3%
Capital assets, net	<u>2,620,114</u>	<u>2,685,525</u>	<u>3,002,121</u>	<u>(2.4%)</u>
Total assets	<u><u>9,707,764</u></u>	<u><u>8,954,534</u></u>	<u><u>9,099,478</u></u>	<u><u>8.4%</u></u>
Liabilities:				
Long-term debt outstanding	78,648	166,276	876,507	(52.7%)
Other current and noncurrent liabilities	<u>1,375,285</u>	<u>1,333,640</u>	<u>1,503,837</u>	<u>3.1%</u>
Total liabilities	<u><u>1,453,933</u></u>	<u><u>1,499,916</u></u>	<u><u>2,380,344</u></u>	<u><u>(3.1%)</u></u>
Net assets:				
Invested in capital assets, net of related debt	2,453,838	2,436,249	1,897,932	0.7%
Unrestricted	<u>5,799,993</u>	<u>5,018,369</u>	<u>4,821,202</u>	<u>15.6%</u>
Total net assets	<u><u>\$ 8,253,831</u></u>	<u><u>7,454,618</u></u>	<u><u>6,719,134</u></u>	<u><u>10.7%</u></u>

Decatur County Hospital

Management's Discussion and Analysis June 30, 2010 and 2009

In 2010, significant changes in the Hospital's assets were due to:

- Cash and cash equivalents decreased by \$22,429 due to increased employee wages due to a market adjustment.
- Internally designated assets increased by \$41,971 or 4% primarily due to reinvested interest on certificates of deposits.
- Net capital assets decreased by \$65,411 or 2% due to increased depreciation expense.
- Total liabilities decreased from 2009 by \$45,983 or 3% due to further reductions in long term debt during the year.

In 2009, significant changes in the Hospital's assets were due to:

- Cash and cash equivalents decreased by \$1,516,455 due a change in investment strategy moving funds from a money market account into CD's.
- Internally designated assets increased by \$70,397 or 4% primarily due to reinvested interest on certificates of deposits.
- Net capital assets decreased by \$316,596 or 11% due to fewer fixed asset additions and increased depreciation expense.
- Total liabilities decreased from 2008 due to the payment of outstanding debt during the year.

Operating Results and Changes in the Hospital's Net Assets

In 2010, the Hospital's net assets increased by \$799,213 or 11% as shown in Table 2. This increase is made up of several different components and represents an increase of \$63,729 compared with the increase in net assets for 2009 of \$735,484. The Hospital's change in net assets increased from \$623,898 in 2008 to \$735,484 in 2009.

Decatur County Hospital

Management's Discussion and Analysis June 30, 2010 and 2009

Table 2: Operating Results and Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2010 Change</u>
Operating revenue:				
Net patient service revenue	\$ 9,204,516	8,598,170	8,331,283	7.1%
Provision for bad debt	(395,634)	(325,937)	(314,868)	21.4%
Other operating revenues	<u>211,301</u>	<u>168,552</u>	<u>161,877</u>	<u>25.4%</u>
Total operating revenue	<u>9,020,183</u>	<u>8,440,785</u>	<u>8,178,292</u>	<u>6.9%</u>
Operating expenses:				
Salaries and benefits	4,820,268	4,334,356	4,105,586	11.2%
Purchased services and other	3,815,199	3,617,986	3,605,361	5.5%
Depreciation and amortization	404,954	414,509	530,673	(2.3%)
Interest	<u>15,244</u>	<u>43,246</u>	<u>72,526</u>	<u>(64.8%)</u>
Total operating expenses	<u>9,055,665</u>	<u>8,410,097</u>	<u>8,314,146</u>	<u>7.7%</u>
Operating income (loss)	<u>(35,482)</u>	<u>30,688</u>	<u>(135,854)</u>	<u>(215.6%)</u>
Nonoperating revenue and expenses				
Property taxes	632,161	608,111	591,637	4.0%
Investment income	84,096	75,479	134,260	11.4%
Non-capital grants and contributions	<u>16,568</u>	<u>21,206</u>	<u>33,855</u>	<u>(21.9%)</u>
Total nonoperating revenue, net	<u>732,825</u>	<u>704,796</u>	<u>759,752</u>	<u>4.0%</u>
Excess revenue over expenses				
before grants and contributions	697,343	735,484	623,898	(5.2%)
Grants and contributions	<u>101,870</u>	<u>--</u>	<u>--</u>	<u>100.0%</u>
Increase in net assets	799,213	735,484	623,898	8.7%
Net assets beginning of year	<u>7,454,618</u>	<u>6,719,134</u>	<u>6,095,236</u>	<u>10.9%</u>
Net assets end of year	<u>\$ 8,253,831</u>	<u>7,454,618</u>	<u>6,719,134</u>	<u>10.7%</u>

Decatur County Hospital

Management's Discussion and Analysis June 30, 2010 and 2009

Operating Income/(Loss)

The first component of the overall change in the Hospital's net assets is its operating income or loss - generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In 2010 and 2008, the Hospital reported an operating loss and in 2009 reported operating income. The Hospital was formed and is operated primarily to serve residents of Decatur County and the surrounding area and the results of operations often reflect losses from operations. As a result of the operating losses, the Hospital levies property taxes to provide sufficient resources to enable the facility to serve patients.

The operating loss of \$35,482 for 2010 was a decrease of \$66,170 from the operating income in 2009 of \$30,688. The primary components of the change in operating results in 2010 are:

- Net patient service revenue increased \$536,649 or 6% from 2009 and total operating expenses in 2010 increased \$645,568 or 8% over 2009.
- Gross patient service revenue increased \$601,572 or 5% in 2010 as compared to 2009; however, contractual adjustments decreased \$4,774 from 2009 primarily due to a decrease in Medicare allowances.
- Salaries and wages and employee benefits increased 11% or \$485,912 in 2010 due to salary and wage adjustments, and increases in IPERS and health insurance costs. The number of full time equivalents (FTEs) increased from 87 in 2009 to 88 in 2010.
- Professional fees increased in 2010 by \$282,516 or 20% due to a contract for cardiology services and an increase in emergency room coverage fees.
- Depreciation expense decreased in 2010 by \$9,555 or 2% primarily due to very little capital equipment being purchased in 2009 and the retirement of a telemetry system on the med/surg floor.

The operating income of \$30,688 for 2009 was an increase of \$166,542 from the operating loss in 2008 of \$135,854. The primary components of the decrease and the operating loss in 2009 are:

- Net patient service revenue increased \$266,887 from 2008 and total operating expenses in 2009 increased \$95,951 or 1% over 2008.
- Gross patient service revenue decreased \$120,492 or 1% in 2009 as compared to 2008; however, contractual adjustments decreased 10% from 2008 primarily due to a decrease in Medicare allowances.
- Salaries and wages and employee benefits increased 6% or \$228,770 in 2009 due to salary and wage adjustments, and increases in IPERS and health insurance costs. The number of full time equivalents (FTEs) increased from 86 in 2008 to 87 in 2009.
- Professional fees increased in 2009 by \$54,669 or 4% due to a contract for cardiology services and an increase in emergency room coverage fees.
- Depreciation expense decreased in 2009 by \$116,164 or 22% primarily due to the CPSI computer system being fully depreciated as of August 2008.

Decatur County Hospital

Management's Discussion and Analysis June 30, 2010 and 2009

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the Hospital, interest income and grants, all of which remained relatively consistent in 2010 as compared to 2009, except for the increase in property taxes of \$24,050.

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in the operating results and nonoperating revenues and expenses in 2010 and 2009, discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2010 and 2009, the Hospital had \$2,620,114 and \$2,685,525, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2010 and 2009, the Hospital purchased new capital assets costing \$339,543 and \$97,913, respectively.

Debt

At June 30, 2010 and 2009, the Hospital had \$166,276 and \$249,276, respectively, in loans and capital lease obligations outstanding. New debt issued in 2009 was for a copier. No new debt was issued in 2010.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Administration by calling 641.446.4871.

Decatur County Hospital

Balance Sheets

June 30, 2010 and 2009

ASSETS	2010	2009
Current assets:		
Cash and cash equivalents	\$ 748,753	771,182
Short-term investments	1,851,091	1,825,240
Receivables -		
Patients, net of estimated uncollectible accounts		
of \$224,000 in 2010 and \$188,536 in 2009	1,212,461	923,384
Property taxes	684,179	607,559
Other	32,196	25,874
Inventories	187,805	188,180
Prepaid expenses	172,377	141,412
Estimated third-party payor settlements	370,639	--
Total current assets	5,259,501	4,482,831
Assets limited as to use or restricted	1,828,149	1,786,178
Capital assets, net	2,620,114	2,685,525
Total assets	\$ 9,707,764	8,954,534
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 87,628	83,000
Accounts payable	231,451	104,647
Accrued salaries, vacation and benefits payable	372,027	335,436
Estimated third-party payor settlements	--	202,998
Deferred revenue for property taxes	684,179	607,559
Total current liabilities	1,375,285	1,333,640
Long-term debt, net of current portion	78,648	166,276
Total liabilities	1,453,933	1,499,916
Commitments and contingencies		
Net assets:		
Invested in capital assets, net of related debt	2,453,838	2,436,249
Unrestricted	5,799,993	5,018,369
Total net assets	8,253,831	7,454,618
Total liabilities and net assets	\$ 9,707,764	8,954,534

See notes to financial statements

Decatur County Hospital

Statements of Revenue, Expenses and Changes in Net Assets For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
OPERATING REVENUE:		
Net patient service revenue before provision for bad debt	\$ 9,204,516	8,598,170
Provision for bad debt	<u>(395,634)</u>	<u>(325,937)</u>
Net patient service revenue	8,808,882	8,272,233
Other operating revenue	<u>211,301</u>	<u>168,552</u>
Total operating revenue	<u>9,020,183</u>	<u>8,440,785</u>
EXPENSES:		
Salaries	3,597,776	3,270,963
Employee benefits	1,222,492	1,063,393
Purchased services and professional fees	1,707,605	1,425,089
Supplies and other	2,107,594	2,192,897
Depreciation and amortization	404,954	414,509
Interest expense	<u>15,244</u>	<u>43,246</u>
Total operating expenses	<u>9,055,665</u>	<u>8,410,097</u>
OPERATING INCOME (LOSS)	<u>(35,482)</u>	<u>30,688</u>
NONOPERATING REVENUE:		
Property taxes	632,161	608,111
Investment income	84,096	75,479
Noncapital grants and contributions	<u>16,568</u>	<u>21,206</u>
Nonoperating revenue	<u>732,825</u>	<u>704,796</u>
EXCESS REVENUE OVER EXPENSES BEFORE GRANTS AND CONTRIBUTIONS	697,343	735,484
GRANTS AND CONTRIBUTIONS	<u>101,870</u>	<u>--</u>
INCREASE IN NET ASSETS	799,213	735,484
NET ASSETS, Beginning of year	<u>7,454,618</u>	<u>6,719,134</u>
NET ASSETS, End of year	<u>\$ 8,253,831</u>	<u>7,454,618</u>

See notes to financial statements

Decatur County Hospital

Statements of Cash Flows

For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	\$ 7,946,168	8,341,879
Cash paid to employees	(4,783,677)	(4,289,354)
Cash paid to suppliers and contractors	(3,718,985)	(3,760,100)
Other receipts and payments, net	<u>204,979</u>	<u>157,777</u>
Net cash provided by (used in) operating activities	<u>(351,515)</u>	<u>450,202</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Noncapital grants and contributions	16,568	21,206
County tax receipts	<u>632,161</u>	<u>608,111</u>
Net cash provided by noncapital financing activities	<u>648,729</u>	<u>629,317</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of property and equipment	(339,543)	(116,363)
Principal payments on long-term debt	(83,000)	(836,463)
Interest payments on long-term debt	(15,244)	(43,246)
Capital grants and contributions	<u>101,870</u>	<u>--</u>
Net cash used in capital and related financing activities	<u>(335,917)</u>	<u>(996,072)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in noncurrent cash	2,472	5,530
Purchase of investments and assets limited as to use or restricted	(70,294)	(1,680,911)
Investment income	<u>84,096</u>	<u>75,479</u>
Net cash provided by (used in) investing activities	<u>16,274</u>	<u>(1,599,902)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(22,429)	(1,516,455)
CASH AND CASH EQUIVALENTS, Beginning of year	<u>771,182</u>	<u>2,287,637</u>
CASH AND CASH EQUIVALENTS, End of year	<u>\$ 748,753</u>	<u>771,182</u>

See notes to financial statements

Decatur County Hospital

Statements of Cash Flows (Continued) For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating income (loss)	\$ (35,482)	30,688
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	404,954	414,509
Interest expense included in operating expenses	15,244	43,246
(Increase) decrease in current assets -		
Receivables -		
Patients	(289,077)	47,649
Property taxes	(76,620)	(25,739)
Other	(6,322)	(10,776)
Inventories	375	(24,276)
Prepaid expenses	(30,965)	416
Estimated third-party payor settlements	(370,639)	--
Increase (decrease) in current liabilities -		
Accounts payable	126,804	(118,254)
Accrued salaries, vacation and benefits payable	36,591	45,002
Estimated third-party payor settlements	(202,998)	21,998
Deferred revenue for property taxes	76,620	25,739
Net cash provided by (used in) operating activities	\$ <u>(351,515)</u>	<u>450,202</u>

See notes to financial statements

Decatur County Hospital

Notes to Financial Statements June 30, 2010 and 2009

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

The following is a summary of significant accounting policies of Decatur County Hospital (Hospital). These policies are in accordance with accounting principles generally accepted in the United States of America. The Hospital is a Critical Access Hospital, operating with 25 acute-care beds. The Hospital also has related health care ancillary and outpatient services.

A. *Reporting Entity*

The financial statements of the Hospital are used to account for the provisions of acute hospital and physician clinic services to the residents of Decatur County and the surrounding area.

For financial reporting purposes, the Hospital has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Hospital has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Hospital are such that exclusion would cause the Hospital's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Hospital to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Hospital. The Hospital has no component units which meet the Governmental Accounting Standards Board criteria.

The Budget Reconciliation Act of 1997 (Act) contained many provisions impacting Medicare reimbursement for Health Services. The Act established the Medicare Rural Hospital Flexibility Program to assist states and rural communities to improve access to essential health care services through limited service hospitals and rural health networks. A Critical Access Hospital (CAH) is an acute care facility that provides emergency, outpatient and short-term inpatient services. Medicare reimburses CAH's on a reasonable cost basis.

The Hospital's application to become certified as a CAH was approved by the Iowa Department of Public Health and the certification was effective July 1, 2002.

B. *Industry Environment*

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that the Hospital is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made which are expected to have a material effect on the Hospital's financial statements, compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

C. *Basis of Presentation*

The Balance Sheets display the Hospital's assets and liabilities, with the differences reported as net assets. Net assets are reported in two categories:

Decatur County Hospital

Notes to Financial Statements June 30, 2010 and 2009

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Unrestricted net assets – This component of net assets consists of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

D. *Measurement Focus and Basis of Accounting*

Measurement focus refers to when revenue and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The accompanying basic financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenue is recognized when earned and expenses are recorded when the liability is incurred.

In reporting its financial activity, the Hospital applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements, Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

E. *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

F. *Cash and Cash Equivalents*

Cash and cash equivalents for purposes of the statements of cash flows include highly liquid investments with an original maturity of three months or less, excluding amounts limited as to use by the Board of Trustees or donor.

G. *Patient Receivables, Net*

Patient receivables are uncollateralized patient and third-party payor obligations. Unpaid patient receivables are not assessed interest.

Payments of patient receivables are allocated to the specific claim identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients, residents, and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Decatur County Hospital

Notes to Financial Statements June 30, 2010 and 2009

H. Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

I. Property Tax Receivable

Property tax receivable is recognized on the levy or lien date, which is the date that the tax asking is certified by the County Board of Supervisors. The succeeding year property tax receivable represents taxes certified by the Board of Supervisors to be collected in the next fiscal year for the purposes set out in the budget for that year. By statute, the Board of Supervisors is required to certify the budget in March of each year for the subsequent year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred and will not be recognized as revenue until the year for which it is levied. Property tax revenue is reported as non-operating revenue when collected by the County Treasurer.

J. Assets Limited as to Use or Restricted

By Board of Trustees – Periodically, the Hospital's Board of Trustees has set aside assets for future capital improvements and equipment. The Board retains control over these funds and may, at its discretion, subsequently use them for other purposes.

K. Short-Term Investments

Short-term investments are assets available for operations without donor imposed restrictions for capital acquisition or endowment. Short-term investments consist of certificates of deposit and accrued interest, which are recorded at fair value.

L. Capital Assets

Capital assets acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided in the straight-line method based upon useful lives set forth using general guidelines from the American Hospital Association Guide for Estimated Useful Lives of Depreciable Hospital Assets. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in the depreciation and amortization in the financial statements. Lives range by capital asset classification as follows:

Land improvements	10 to 25 years
Buildings and building improvements	5 to 40 years
Equipment, computers, and furniture	3 to 20 years

M. Compensated Absences

Hospital employees accumulate a limited amount of earned but unused Paid Time Off (PTO) hours for subsequent use or for payment upon termination, death, or retirement and may be carried forward by an employee at a maximum amount of 240 hours. PTO expense is accrued as an expense and a liability as it is earned. Accrued PTO payable at June 30, 2010 and 2009 was \$192,132 and \$177,859 respectively.

Decatur County Hospital

Notes to Financial Statements June 30, 2010 and 2009

N. Deferred Revenue

Although certain revenue is measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of succeeding year property tax receivable.

O. Statement of Revenue, Expenses and Changes in Net Assets

For purposes of display, transactions deemed by management to be on-going, major or central to the provision of health care services are reported as operating revenue and expenses. Peripheral or incidental transactions are reported as nonoperating gains and losses.

P. Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge or per ambulatory payment classification, reimbursed costs, discounted charges, and per diem payments. The Hospital has agreements with third-party payors who provide payment based on fee schedule amounts. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Q. Grants and Contributions

From time to time, the Hospital receives contributions from individuals and private organizations. Revenue from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met.

R. Income Taxes

Under the Code of Iowa, Chapter 347, the Hospital is an instrumentality of the County of Decatur, Iowa. As such, the Hospital is exempt from paying income taxes.

S. Operating Revenue and Expenses

The Hospital's statement of revenue, expenses and changes in net assets distinguishes between operating and nonoperating revenue and expenses. Operating revenue result from exchange transactions associated with the provision of health care services – the Hospital's principal activity. Nonexchange revenue, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

T. Charity Care

To fulfill its mission of community service, the Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of these amounts determined to qualify as charity care, they are not reported in the statements of operations. Charges excluded from revenue under the Hospital's charity care policy were \$63,526 and \$54,176 for 2010 and 2009, respectively.

Decatur County Hospital

Notes to Financial Statements June 30, 2010 and 2009

U. *Risk Management*

The Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

V. *Subsequent Events*

The Hospital considered events occurring through November 19, 2010 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(2) **Cash, Investments and Assets Limited as to Use or Restricted**

The Hospital's deposits in banks at June 30, 2010 and 2009 were entirely covered by federal depository insurance or the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Hospital is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts, and warrants or improvement certificates of a drainage district.

The Hospital manages the following risks in accordance with their formal investment policy:

Interest Rate Risk: The Hospital's investment policy does not limit investments on interest rate risk. The Hospital complies with State of Iowa statutes in regards to interest rate risk.

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Hospital's investment policy requires the fund to be deposited into banking institutions that have the ability to collateralize any deposits made in excess of the Federal Deposit Insurance Corporation's insurance limits.

The Hospital's investments are carried at fair value. All bank deposit accounts are fully insured or collateralized by securities held by the Hospital's agent in the Hospital's name.

The composition of investments and assets limited as to use or restricted as of June 30, 2010 and 2009 is as follows:

Decatur County Hospital

Notes to Financial Statements June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Short-Term Investments:		
Certificates of deposit	\$ <u>1,851,091</u>	<u>1,825,240</u>
Assets Limited as to Use or Restricted:		
By the Board of Trustees for:		
Capital improvements:		
Cash and cash equivalents	\$ 65,536	67,084
Certificates of deposit	1,751,894	1,705,903
Accrued interest	<u>10,719</u>	<u>13,191</u>
Total assets limited as to use or restricted	\$ <u>1,828,149</u>	<u>1,786,178</u>

Investment return, including return on assets limited as to use or restricted, for the years ended June 30, 2010 and 2009 is summarized as follows:

	<u>2010</u>	<u>2009</u>
Interest	\$ <u>84,096</u>	<u>75,479</u>

(3) Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries in a Critical Access Hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services and certain outpatient services related to Medicare beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. The Hospital's Medicare cost reports have been audited by the Medicare administrative contractor through June 30, 2008.

Medicaid - Inpatient acute services and outpatient services rendered to Medicaid program beneficiaries in a Critical Access Hospital are paid based on Medicaid defined costs of providing the services. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital.

The Hospital has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Hospital under these agreements may include prospectively determined rates and discounts from established charges.

The Hospital reports net patient services revenue at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Revenue from the Medicare and Medicaid programs accounted for approximately 52.2% and 9.3%, respectively, of the Hospital's net patient service revenue for the year ended June 30, 2010, and 49.7% and 7.3%, respectively, for the year ended June 30, 2009. Laws and regulations governing the Medicare and

Decatur County Hospital

Notes to Financial Statements June 30, 2010 and 2009

Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2010 and 2009 net patient service revenue increased approximately \$373,000 and \$50,000, respectively, due to the removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer subject to audits, review and investigations.

A summary of patient service revenue and contractual adjustments for the years ended June 30, 2010 and 2009 are as follows:

	<u>2010</u>	<u>2009</u>
Gross patient service revenue:		
Hospital -		
Inpatient	\$ 1,910,198	1,704,136
Outpatient	9,101,040	8,599,653
Swingbed	783,506	891,844
Surgery Clinic	20,591	18,130
	<u>11,815,335</u>	<u>11,213,763</u>
Total gross patient service revenue		
Contractual adjustments:		
Medicare	(1,269,157)	(1,322,382)
Medicaid	(275,000)	(299,908)
Other	(1,003,136)	(939,127)
Charity care services	(63,526)	(54,176)
	<u>(2,610,819)</u>	<u>(2,615,593)</u>
Total contractual adjustments		
Net patient service revenue before provision for bad debt	\$ <u>9,204,516</u>	<u>8,598,170</u>

(4) Composition of Patient Receivables

Patient receivables as of June 30, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Patient accounts	\$ 1,878,461	1,315,325
Less estimated third-party contractual adjustments	(442,000)	(203,405)
Less allowance for doubtful accounts	(224,000)	(188,536)
	<u>\$ 1,212,461</u>	<u>923,384</u>

The Hospital grants credits without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2010</u>	<u>2009</u>
Medicare	36.3%	29.8%
Medicaid	11.3	8.4
Blue Cross	12.8	16.5
Other third party payor	17.6	17.9
Private pay	22.0	27.4
	<u>100.0%</u>	<u>100.0%</u>

Decatur County Hospital

Notes to Financial Statements June 30, 2010 and 2009

(5) Capital Assets

Capital assets and the related accumulated depreciation are summarized as follows:

	June 30, 2009	Additions	Transfers and Disposals	June 30, 2010
Capital assets, not being depreciated:				
Land	\$ 44,272	--	--	44,272
Construction in progress	--	21,636	--	21,636
Total capital assets, not being depreciated	44,272	21,636	--	65,908
Capital assets, being depreciated:				
Land improvements	116,814	19,965	--	136,779
Hospital buildings	4,290,824	--	--	4,290,824
Major moveable equipment	2,899,161	297,942	(43,691)	3,153,412
Total capital assets, being depreciated	7,306,799	317,907	(43,691)	7,581,015
Less accumulated depreciation:				
Land improvements	72,878	3,974	--	76,852
Hospital buildings	2,341,876	146,589	--	2,488,465
Major moveable equipment	2,250,792	254,391	(43,691)	2,461,492
Total accumulated depreciation	4,665,546	404,954	(43,691)	5,026,809
Total capital assets, being depreciated, net	2,641,253	(87,047)	--	2,554,206
Total capital assets, net	\$ 2,685,525	(65,411)	--	2,620,114
	June 30, 2008	Additions	Transfers and Disposals	June 30, 2009
Capital assets, not being depreciated:				
Land	\$ 44,272	--	--	44,272
Total capital assets, not being depreciated	44,272	--	--	44,272
Capital assets, being depreciated:				
Land improvements	116,814	--	--	116,814
Hospital buildings	4,242,803	48,021	--	4,290,824
Major moveable equipment	2,849,269	49,892	--	2,899,161
Total capital assets, being depreciated	7,208,886	97,913	--	7,306,799
Less accumulated depreciation:				
Land improvements	67,293	5,585	--	72,878
Hospital buildings	2,197,670	144,206	--	2,341,876
Major moveable equipment	1,986,074	264,718	--	2,250,792
Total accumulated depreciation	4,251,037	414,509	--	4,665,546
Total capital assets, being depreciated, net	2,957,849	(316,596)	--	2,641,253
Total capital assets, net	\$ 3,002,121	(316,596)	--	2,685,525

Total depreciation for the year ended June 30, 2010 and 2009, including depreciation on rental property owned by the Hospital, was \$404,954 and \$414,509 respectively.

Decatur County Hospital

Notes to Financial Statements June 30, 2010 and 2009

Management has considered the accounting for conditional asset retirement obligations, specifically as it relates to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties. On June 7, 2010, the Decatur County Hospital Board of Trustees approved a resolution to replace the Hospital's existing facility. The Hospital is aware that the existing facility contains materials that would require specialized removal. In addition, the replacement is contingent on obtaining financing and the majority vote of the residents of Decatur County. Management believes that there is an indeterminate settlement date for the asset retirement obligations noted above because the range of time over which the Hospital may settle the obligations is unknown and cannot be estimated.

(6) Long-Term Debt

Long-term debt activity of the Hospital as of June 30, 2010 and 2009 consisted of the following:

	<u>June 30, 2009</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30, 2010</u>	<u>Due Within One Year</u>
Capital Lease Obligations (C)	249,276	--	(83,000)	166,276	87,628
	<u>\$ 249,276</u>	<u>--</u>	<u>(83,000)</u>	<u>166,276</u>	<u>87,628</u>
	<u>June 30, 2008</u>	<u>Borrowings</u>	<u>Payments</u>	<u>June 30, 2009</u>	<u>Due Within One Year</u>
Great Western Bank (A)	\$ 530,676	--	(530,676)	--	--
American State Bank (B)	223,236	--	(223,236)	--	--
Capital Lease Obligations (C)	331,827	17,616	(100,167)	249,276	83,000
	<u>\$ 1,085,739</u>	<u>17,616</u>	<u>(854,079)</u>	<u>249,276</u>	<u>83,000</u>

- (A) Great Western note payable requires monthly payments of principal and interest at variable rates ranging from 5.59% to 7.95%. This note is collateralized by patient revenue. The note was paid off in its entirety during March 2009.
- (B) American State Bank note payable requires monthly payments of principal and interest with interest at a rate of 5.5%. This note is collateralized by patient revenue. The note was paid off in its entirety during March 2009.
- (C) Capital lease obligations at varying rates of imputed interest from 7.0% to 7.2% maturing through 2014 and collateralized by leased equipment.

Assets recorded under capital leases consist of fixed and major moveable equipment items and building components with totals as follows:

	<u>2010</u>	<u>2009</u>
Cost	\$ 475,927	475,927
Less: Accumulated amortization	<u>(347,249)</u>	<u>(265,857)</u>
Net book value	<u>\$ 128,678</u>	<u>210,070</u>

Decatur County Hospital

Notes to Financial Statements June 30, 2010 and 2009

The following is a schedule by year of future minimum lease payments under capital lease obligations as of June 30, 2010:

	<u>2010</u>
2011	96,683
2012	73,558
2013	4,188
2014	<u>4,188</u>
Total minimum lease payments	178,617
Less amount representing interest	<u>(12,341)</u>
Principal value of future minimum lease payments	\$ <u><u>166,276</u></u>

(7) Pension and Retirement Benefits

The Hospital contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Plan members are required to contribute 4.30% of their annual salary and the Hospital is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The Hospital's contribution to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$243,106, \$207,060, and \$180,170, respectively.

(8) Management Contract

The Hospital has a contractual arrangement with Mercy Medical Center – Des Moines (Mercy), under which Mercy provides management and other services to the Hospital. The arrangement does not alter the authority of responsibility of the Board of Trustees of the Hospital. The amount paid to Mercy for services during the years ended June 30, 2010 and 2009 were approximately \$366,312 and \$386,100, respectively.

(9) Professional Liability Insurance

The Hospital carries a professional liability policy (including malpractice) providing coverage of \$1,000,000 for injuries per occurrence and \$3,000,000 aggregate coverage. In addition, the Hospital carries an umbrella policy which also provides \$3,000,000 aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. In the event the Hospital should elect not to purchase insurance from the present carrier or the carrier should elect not to renew the policy, any unreported claims which occurred during the policy year may not be recoverable from the carrier.

Decatur County Hospital

Notes to Financial Statements June 30, 2010 and 2009

(10) Commitments and Contingencies

Operating Leases

The Hospital leases certain equipment under an operating lease expiring in January 2013. Total rental expense in 2010 and 2009 for this equipment was \$202,059 and \$203,556, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2010, that have initial lease terms in excess of one year:

<u>Year</u>	<u>Amount</u>
2011	\$ 74,265
2012	21,561
2013	2,705

Decatur County Hospital

Budgetary Comparison Schedule of Revenue, Expenses and Changes in Net Assets Budget and Actual (Cash Basis) For the Year Ended June 30, 2010

This budgetary comparison is presented as required supplementary information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary prospective differences resulting from Decatur County Hospital preparing a budget on the cash basis of accounting.

The Board of Trustees annually prepares and adopts a budget designating the amount necessary for the improvement and maintenance of the Hospital on the cash basis following required public notice and hearing in accordance with Chapters 24 and 347 of the Code of Iowa. The Board of Trustees certifies the approved budget to the appropriate county auditors. The budget may be amended during the year utilizing similar statutorily prescribed procedures. Formal and legal budgetary control is based on total expenditures.

For the year ended June 30, 2010, the Hospital's expenditures exceeded amounts budgeted.

The following is a reconciliation between reported amounts and cash disbursements and a comparison to budget:

	Actual Accrual Basis	Accrual Adjustments	Actual Cash Basis	Budgeted Amounts	Variance Favorable (Unfavorable)
Estimated amount to be raised by taxation	\$ 632,161	--	632,161	607,559	24,602
Estimated other revenues / receipts	9,222,717	(866,567)	8,356,150	9,371,153	(1,015,003)
	9,854,878	(866,567)	8,988,311	9,978,712	(990,401)
Expenses / Disbursements	9,055,665	(115,219)	8,940,446	8,814,874	(125,572)
Net	799,213	(751,348)	47,865	\$ 1,163,838	(1,115,973)
Balance beginning of year	7,454,618	(2,275,012)	5,179,606		
Balance end of year	\$ 8,253,831	(3,026,360)	5,227,471		

Decatur County Hospital

Exhibit 1

Net Patient Service Revenue For the Years Ended June 30, 2010 and 2009

	2010				2009			
	Inpatient	Outpatient	Swing Bed	Total	Inpatient	Outpatient	Swing Bed	Total
NURSING SERVICES:								
Medical, surgical and obstetrics	\$ 632,263	282,204	--	914,467	576,535	307,574	--	884,109
Skilled nursing	--	--	249,041	249,041	--	--	264,280	264,280
Respite	--	--	62,714	62,714	--	--	111,048	111,048
Observation	--	199,302	--	199,302	--	209,187	--	209,187
	<u>632,263</u>	<u>481,506</u>	<u>311,755</u>	<u>1,425,524</u>	<u>576,535</u>	<u>516,761</u>	<u>375,328</u>	<u>1,468,624</u>
OTHER PROFESSIONAL SERVICES:								
Operating and recovery rooms	144,176	1,002,118	--	1,146,294	129,753	983,609	4,480	1,117,842
Laboratory	186,678	1,627,877	38,791	1,853,346	184,952	1,426,220	39,570	1,650,742
Central services and supply	51,236	101,342	1,766	154,344	23,954	96,128	3,901	123,983
Emergency and outpatient service	11,303	838,409	--	849,712	2,480	642,821	--	645,301
Ambulance	16,493	684,190	--	700,683	6,791	666,489	--	673,280
Electrocardiology	6,379	72,009	570	78,958	5,240	58,453	655	64,348
Radiology	55,124	1,074,492	8,190	1,137,806	48,133	1,023,767	8,897	1,080,797
CT scanner	80,833	517,530	--	598,363	62,550	532,191	--	594,741
Vascular imaging	12,381	282,524	2,404	297,309	8,991	206,167	840	215,998
Cardiac rehab	--	187,286	2,498	189,784	--	139,320	408	139,728
Pharmacy	437,855	1,236,010	159,836	1,833,701	420,460	1,410,325	198,024	2,028,809
Anesthesiology	55,322	397,005	--	452,327	48,127	404,633	--	452,760
Respiratory therapy	206,687	178,488	115,310	500,485	174,702	149,529	117,026	441,257
Physical therapy	9,705	328,991	70,015	408,711	8,369	274,627	62,087	345,083
Occupational therapy	1,308	66,331	65,130	132,769	2,539	53,540	79,009	135,088
Speech therapy	2,455	14,636	7,241	24,332	560	7,724	1,619	9,903
Clinics	--	20,591	--	20,591	--	18,130	--	18,130
Diabetic education	--	10,296	--	10,296	--	7,349	--	7,349
	<u>1,277,935</u>	<u>8,640,125</u>	<u>471,751</u>	<u>10,389,811</u>	<u>1,127,601</u>	<u>8,101,022</u>	<u>516,516</u>	<u>9,745,139</u>
GROSS PATIENT SERVICE REVENUE	\$ <u>1,910,198</u>	<u>9,121,631</u>	<u>783,506</u>	<u>11,815,335</u>	<u>1,704,136</u>	<u>8,617,783</u>	<u>891,844</u>	<u>11,213,763</u>
LESS:								
Contractual allowances and other deductions, primarily Medicare and Medicaid				(2,547,293)				(2,561,417)
Charity care services and other discounts, based on charges forgone				<u>(63,526)</u>				<u>(54,176)</u>
NET PATIENT SERVICE REVENUE BEFORE PROVISION FOR BAD DEBT				9,204,516				8,598,170
PROVISION FOR BAD DEBT				<u>(395,634)</u>				<u>(325,937)</u>
NET PATIENT SERVICE REVENUE	\$			<u>8,808,882</u>				<u>8,272,233</u>

Other Operating Revenue

For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Meals sold	\$ 40,346	41,861
Laundry	1,029	992
Medical records transcriptions	29,842	20,689
Outsourcing of occupational therapist	29,709	210
Other	<u>110,375</u>	<u>104,800</u>
	\$ <u>211,301</u>	<u>168,552</u>

Decatur County Hospital

Exhibit 3

Departmental Expenses For the Years Ended June 30, 2010 and 2009

	2010				2009			
	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total	Salaries and Wages	Professional Fees and Purchased Services	Supplies and Other	Total
NURSING SERVICES:								
Medical and surgical	\$ 78,445	--	4,087	82,532	68,043	--	3,277	71,320
Administration	908,793	1,745	63,333	973,871	845,327	4,780	60,788	910,895
	<u>987,238</u>	<u>1,745</u>	<u>67,420</u>	<u>1,056,403</u>	<u>913,370</u>	<u>4,780</u>	<u>64,065</u>	<u>982,215</u>
OTHER PROFESSIONAL SERVICES:								
Operating and recovery room	209,117	--	58,458	267,575	170,299	68	63,814	234,181
Central services and supply	--	--	61,403	61,403	--	--	39,913	39,913
Emergency room	243,855	416,503	10,598	670,956	215,656	400,944	9,265	625,865
Radiology	172,476	314,673	276,822	763,971	174,272	294,080	270,011	738,363
Ambulance	200,652	--	25,792	226,444	191,418	--	26,142	217,560
Ultrasound	--	--	33,281	33,281	--	--	33,297	33,297
Cardiac rehab	98,985	141,273	6,532	246,790	63,972	100,140	8,342	172,454
Laboratory	179,211	7,268	303,933	490,412	151,946	2,692	278,847	433,485
Pharmacy	40,273	143,910	337,033	521,216	36,327	140,989	370,966	548,282
Social services	14,660	--	123	14,783	13,267	--	--	13,267
Home health	59,242	8,381	6,562	74,185	47,943	4,042	7,293	59,278
Anesthesiology	--	152,571	3,262	155,833	--	152,620	2,580	155,200
Respiratory therapy	65,010	69,727	25,527	160,264	89,333	15,609	26,117	131,059
Physical therapy	117,361	67,923	16,387	201,671	124,047	476	18,386	142,909
Occupational therapy	51,264	29,623	1,876	82,763	28,957	8,151	529	37,637
Speech therapy	6,951	--	5,154	12,105	13,929	--	2,208	16,137
Clinics	32,235	--	3,840	36,075	26,083	--	2,963	29,046
Medical records	163,443	1,390	19,980	184,813	142,575	220	24,809	167,604
Quality assurance	20,902	--	509	21,411	24,640	--	755	25,395
	<u>1,675,637</u>	<u>1,353,242</u>	<u>1,197,072</u>	<u>4,225,951</u>	<u>1,514,664</u>	<u>1,120,031</u>	<u>1,186,237</u>	<u>3,820,932</u>
GENERAL SERVICES:								
Plant operation and maintenance	129,571	--	352,576	482,147	112,213	3,225	381,727	497,165
Laundry and linen	10,828	27,388	21,304	59,520	15,196	30,776	(3,415)	42,557
Dietary	189,794	37,642	73,431	300,867	180,624	32,611	76,844	290,079
Housekeeping	95,985	4,986	12,055	113,026	88,580	3,856	15,315	107,751
	<u>426,178</u>	<u>70,016</u>	<u>459,366</u>	<u>955,560</u>	<u>396,613</u>	<u>70,468</u>	<u>470,471</u>	<u>937,552</u>
ADMINISTRATIVE SERVICES	508,723	282,602	323,408	1,114,733	446,316	229,810	409,214	1,085,340
NONDEPARTMENTAL:								
Employee benefits	--	--	1,222,492	1,222,492	--	--	1,063,393	1,063,393
Depreciation and amortization	--	--	404,954	404,954	--	--	414,509	414,509
Interest	--	--	15,244	15,244	--	--	43,246	43,246
Insurance	--	--	60,328	60,328	--	--	62,910	62,910
	<u>--</u>	<u>--</u>	<u>1,703,018</u>	<u>1,703,018</u>	<u>--</u>	<u>--</u>	<u>1,584,058</u>	<u>1,584,058</u>
TOTAL EXPENSES	\$ <u>3,597,776</u>	<u>1,707,605</u>	<u>3,750,284</u>	<u>9,055,665</u>	<u>3,270,963</u>	<u>1,425,089</u>	<u>3,714,045</u>	<u>8,410,097</u>

Patient Receivables and Allowance for Doubtful Accounts
For the Years Ended June 30, 2010 and 2009

ANALYSIS OF AGING:

Days Since Discharge	2010		2009	
	Amount	Percent of Total	Amount	Percent of Total
0 - 30	\$ 1,019,373	54.26 %	797,474	60.63 %
31 - 60	362,125	19.28	217,443	16.52
61 - 90	157,961	8.41	87,459	6.65
91 - 120	103,311	5.50	51,511	3.92
121 and over	235,691	12.55	161,438	12.27
	<u>1,878,461</u>	<u>100.00 %</u>	<u>1,315,325</u>	<u>100.00 %</u>

Less:

Allowance for doubtful accounts	(224,000)	(188,536)
Allowance for contractual adjustments	<u>(442,000)</u>	<u>(203,405)</u>
	<u>\$ 1,212,461</u>	<u>923,384</u>

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

	2010	2009
Balance, beginning of year	\$ 188,536	175,000
Provision of uncollectible accounts	395,634	325,937
Recoveries of accounts previously written off	158,462	177,843
Accounts written off	<u>(518,632)</u>	<u>(490,244)</u>
Balance, end of year	<u>\$ 224,000</u>	<u>188,536</u>

Inventories / Prepaid Expenses

For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
INVENTORY:		
Laboratory	37,893	42,951
Plant operations and maintenance	55,953	45,509
Dietary	5,235	6,580
Operating room	19,747	19,598
Pharmacy	58,708	48,510
Housekeeping	--	756
Laundry	<u>10,269</u>	<u>24,276</u>
	\$ <u>187,805</u>	<u>188,180</u>
 PREPAID EXPENSES:		
Insurance	\$ 91,091	49,041
Maintenance contracts	<u>81,286</u>	<u>92,371</u>
	\$ <u>172,377</u>	<u>141,412</u>

Financial Statistical Highlights
For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Patient days:		
Adult and pediatric-		
Medicare	578	522
Other	<u>298</u>	<u>329</u>
	876	851
Swing bed - Skilled	738	868
Respite	<u>424</u>	<u>781</u>
Total	<u><u>1,162</u></u>	<u><u>2,500</u></u>
Patient discharges:		
Adult and pediatric-		
Medicare	163	158
Other	<u>114</u>	<u>121</u>
	277	279
Swing bed - Skilled	73	75
Respite	<u>13</u>	<u>9</u>
Total	<u><u>86</u></u>	<u><u>363</u></u>
Average length of stay:		
Adult and pediatric-		
Medicare	3.55 days	3.30 days
Other	2.61 days	2.72 days
Swing bed - Skilled	10.11 days	11.57 days
Respite	32.62 days	86.78 days
Surgical procedures	371	423
Emergency room visits	2,423	2,524
Number of employees - full-time equivalents	87.68	87.17

**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based
on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

To the Board of Trustees of
Decatur County Hospital
Leon, Iowa:

We have audited the financial statements of Decatur County Hospital (Hospital), as of and for the year ended June 30, 2010, and have issued our report thereon dated November 19, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the Hospital's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned costs as Item II-A-10 to be a material weakness.

A significant deficiency is a deficiency or a combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as Item II-B-10 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Hospital's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying schedule of findings and questioned costs.

Comments involving statutory and other legal matters about the Hospital's operations for the year ended June 30, 2010, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Hospital. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This Hospital's responses to findings identified in our audit are described in the accompanying schedule of findings and questioned costs. While we have expressed our conclusions on the Hospital's responses, we did not audit the Hospital's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of Decatur County Hospital, and other parties to whom Decatur County Hospital may report. This report is not intended to and should not be used by anyone other than those specified parties.

Seim Johnson Sestak & Quist LLP

Omaha, Nebraska,
November 19, 2010.

Decatur County Hospital

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2010

Part I: Summary of the Independent Auditor's Results

- a. An unqualified opinion was issued on the financial statements.
- b. One material weakness and one significant deficiency in internal control over financial reporting were disclosed by the audit of the financial statements.
- c. The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements

Instances of Non-Compliance

No matters were reported.

Material Weakness

II-A-10

<i>Criteria:</i>	The design or operation of the Hospital's internal controls should allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements in the financial statements on a timely basis.
<i>Condition:</i>	We identified misstatements in the financial statements during the audit that were not initially identified by the Hospital's internal controls.
<i>Effect:</i>	Audit entries were required to adjust the net realizable value of accounts receivable and estimated third party payor settlements.
<i>Cause:</i>	Allowance and accrual balances requiring estimation and judgment were incorrectly recorded.
<i>Recommendation:</i>	The Hospital should review and revise its estimation process of the stated allowance and accrual accounts to ensure that financial statements are properly stated.
<i>Response:</i>	The Hospital concurs with the recommendation.
<i>Conclusion:</i>	Response accepted.

Significant Deficiency

II-B-10

<i>Criteria:</i>	Proper segregation of duties ensures an adequate internal control structure.
<i>Condition:</i>	We identified instances where a lack of segregation of duties exists.
<i>Effect:</i>	Without proper segregation of duties, a greater risk of fraud and defalcation may exist.
<i>Cause:</i>	Due to a limited number of administrative personnel, a lack of segregation of duties exists.
<i>Recommendation:</i>	We recommend the Hospital continue to monitor and improve its segregation of duties.
<i>Response:</i>	Management is aware of this control deficiency and believes it is economically not feasible for the Hospital to employ additional personnel for the purpose of greater segregation of duties. The Hospital will continue to maintain and improve its segregation of duties.
<i>Conclusion:</i>	Response accepted.

Decatur County Hospital

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2010

Part III: Other Findings Related to Required Statutory Reporting

III-A-10

Official Depositories: A resolution naming official depositories has been adopted by the Board. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2010.

III-B-10

Certified Budget: Two instances of non-compliance were identified. Hospital disbursements during the year ended June 30, 2010 exceeded budgeted amounts. In addition, the budget for the year ended June 30, 2011, was not submitted prior to the March 15, 2010 deadline, as required by Chapter 24.17 of the Code of Iowa.

Recommendation: We recommend that the Board monitor expenditures and propose amendments before the May 31 deadline. We further recommend that the Board monitor the timeline for the adoption of the following fiscal year's certified budget.

Response: Management is aware of the delayed amendment and tardy adoption of the certified budget and will meet deadlines in the future.

Conclusion: Response accepted.

III-C-10

Questionable Expenditures: We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General opinion dated April 25, 1979.

III-D-10

Travel Expense: No expenditures of Hospital money for travel expenses of spouses of Hospital officials and/or employees were noted. However, we did note that the Hospital has been reimbursing employees for mileage at a rate in excess of the Internal Revenue Service rates.

Recommendation: We recommend that management monitor the Internal Revenue Service mileage rates for changes and promptly update expense reimbursement forms.

Response: Management is aware of the overpayment of mileage and will update reimbursement forms.

Conclusion: Response accepted.

III-E-10

Business Transactions: No business transactions between the Hospital and Hospital officials and/or employees were noted to violate Chapter 347.15 of the Code of Iowa which limits a trustee's pecuniary interest in the purchase or sale of any commodities or supplies procured for or disposed of by said hospital to \$1,500 without publicly invited and opened written competitive bids.

III-F-10

Board Minutes: No transactions were found that we believe should have been approved in the Board minutes but were not.

Decatur County Hospital

Schedule of Findings and Questioned Costs For the Year Ended June 30, 2010

III-G-10

Deposits and Investments: No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the Hospital's investment policy were noted.

III-H-10

Publication of Bills Allowed and Salaries: Chapter 347.13(14) of the Code of Iowa states in part, "There shall be published quarterly in each of the official newspapers of the county as selected by the board of supervisors pursuant to Section 349.1 the schedule of bills allowed and there shall be published annually in such newspaper the schedule of salaries paid by job classification and category..." We noted no instances of noncompliance with the publication of bills allowed and salaries. The Hospital publishes a list of expenditures quarterly which are summarized by major classification and vendor. They also publish a schedule of salaries annually by category.

Decatur County Hospital

Summary Schedule of Prior Year Audit Findings For the Year Ended June 30, 2010

There were no prior year audit findings that were not reported in the current year.

Decatur County Hospital

Audit Staff

For the Year Ended June 30, 2010

This audit was performed by:

- Randy D. Hoffman, CPA, FHFMA, Partner
- Natalie E. Miller, CPA, Senior
- Marc D. Behrens, Staff Auditor